

Message Text

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43

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 H-02 PA-01 PRS-01 /096 W

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R 240646Z MAY 75

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 8690

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USMISSION GENEVA

USMISSION OECD PARIS

USMISSION EC BRUSSELS

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E.O. 11652: N/A

TAGS: ETRD, EFIN, FI

SUBJECT: FINNISH BALANCE OF PAYMENTS SITUATION

REF: HELSINKI 1067

1. SUMMARY: FOREIGN TRADE MINISTER JERU LAINEN IN STOCKHOLM SPEECH MAY 20, AFTER APPEARANCE REPORTS (REFTEL) ON EFFECT OF FINNISH IMPORT DEPOSIT SCHEME (IDS) EMPHASIZED THAT OTHER MEASURES IN GOF 9-POINT BALANCE OF PAYMENTS IMPROVEMENT PROGRAM WILL BE MORE IMPORTANT IN THE LONG RUN. HE DESCRIBED OTHER MEASURES AS BETTER EXPORT MARKETING, SAFEGUARDING THE LABOR FORCE IN EXPORT INDUSTRIES AND BUDGET LIMITATION. MINISTER OF COMMERCE AND INDUSTRY KRISTIAN GESTRIEN EARLIER HAD DISCUSSED CURRENT ECONOMIC SITUATION WITH AMERICAN AMBASSADOR. END SUMMARY.

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2. INCREASE IN DEMAND FOR FINNISH FOREST INDUSTRIES IS NOT MATERIALIZING. PRESS MAY 21 STATED THAT FINNISH LUMBER PRODUCTION WHICH ALREADY CUT TO 60 PERCENT OF NORMAL, WILL HAVE TO BE CUT FURTHER BECAUSE OF LACK OF DEMAND. FURTHERMORE, CUT IN SOVIET LUMBER PRICES RECENTLY IN SOME OVERSEAS MARKETS MAY REQUIRE MATCHING CUT FROM FINNS IN ORDER TO STAY COMPETITIVE.

3. FINNISH INFLATION RATE SHOWS NO SIGN OF FALLING AND INDEED INCREASED SLIGHTLY IN APRIL. GOF BUDGET SURPLUSES OF THE PAST FEW YEARS HAVE NOT HELD BACK INFLATION, AND SOME OBSERVERS PREDICT THAT BUDGET WILL NOW MOVE INTO DEFICIT BECAUSE OF GENERAL PRICE AND COST INCREASES.

4. MINISTER OF TRADE AND INDUSTRY KRISTIAN GESTRIN TOLD AMBASSADOR DURING LATTER'S COURTESY CALL ON MAY 15 THAT JANUARY-APRIL TRADE FIGURES INDICATE TRADE DEFICIT WILL BE 5 BILLION FMKS AGAIN THIS YEAR. IN INTRODUCING IDS AND ANNOUNCING OTHER ECONOMIC MEASURES GOVERNMENT HAD ONCE HOPED TO REDUCE DEFICIT TO 3.5 BILLION. HE SAID THAT IDS WAS HAVING AN EFFECT -- IN APRIL THE VOLUME OF IMPORTS WAS BELOW THAT OF APRIL 1974 AND THE VALUE WAS ONLY 7 PERCENT HIGHER. BUT THE VOLUME OF EXPORTS HAD SUNK BELOW THE CORRESPONDING MONTH IN 1974 ALREADY IN FEBRUARY, AND IN MARCH AND APRIL THE EXPORT LEVEL WAS LOWER EVEN IN VALUE TERMS THAN IN THE SAME MONTHS OF 1974. UNTIL WESTERN EUROPEAN AND OTHER MARKETS FOR FINNISH EXPORTS, PARTICULARLY FOREST PRODUCTS, IMPROVE, THE IDS ALONE WILL NOT REDUCE TRADE DEFICIT. IN RESPONSE TO QUESTION, GESTRIN SAID FINLAND WOULD TRY HARD TO AVOID HAVING TO IMPOSE MORE SEVERE IMPORT RESTRICTIONS BECAUSE OF INTERNATIONAL COMMITMENTS AND BECAUSE OF POSSIBLE RETALIATION. HE SAID THAT FINLAND COULD NOT HOWEVER PROMISE THAT IN NO CIRCUMSTANCES WOULD SUCH FURTHER IMPORT RESTRICTING ACTION BE TAKEN. (ON OTHER HAND, FINNISH REPRESENTATIVES WERE REPORTED TO HAVE PROMISED, AT EFTA MINISTERIAL COUNCIL MEETING IN GENEVA MAY 22, TO LIMITED OFFICIAL USE

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GRADUALLY DISMANTLE THE IDS.)

5. THE AMBASSADOR ASKED GESTRIN WHAT GOF INTENDS TO DO TO SOLVE ITS ECONOMIC PROBLEMS. HE SAID CURRENT UNSETTLED POLITICAL SITUATION MAKES ACTION DIFFICULT AS SUCH MATTERS AS PREPARING 1976 BUDGET AND PREPARING LONG-RANGE ECONOMIC PLAN. HOWEVER, MAJOR EMERGENCY MEASURES INCLUDE POSTPONING CERTAIN

INVESTMENTS (SUCH AS ROAD CONSTRUCTION, GOVERNMENT BUILDINGS), RESTRICTING OTHER SPENDING BY LOCAL, REGIONAL AND NATIONAL GOVERNMENTS, AS PART OF A DEMAND MANAGEMENT PROGRAM, AVOIDING INCREASES IN SOCIAL BENEFITS, DIRECTING AVAILABLE GOF AND PRIVATE BANK CAPITAL INTO EXPORT PRODUCING OR IMPORT SUBSTITUTING INDUSTRIES, AND INTENSIFYING EXPORT PROMOTION ACTIVITIES. HE NOTED THAT FINLAND HAS INFLATION AND A BALANCE OF PAYMENTS PROBLEM BUT HAPPILY A LOW UNEMPLOYMENT RATE. HE SAID THAT FINLAND COULD NOT AFFORD TO LET UNEMPLOYMENT RISE MUCH OR IT WOULD LOSE MORE OF ITS SKILLED LABOR FORCE TO SWEDEN AND NORWAY.

6. ACCORDING TO PRESS STORIES, IMPORT DEPOSITS HELD AT THE BANK OF FINLAND AFTER ROUGHLY TWO MONTHS OF OPERATION OF THE IMPORT DEPOSIT SCHEME ARE SAID TO BE ABOUT 200 MILLION FMK. IF THIS TREND CONTINUES THE MAXIMUM AMOUNT OF MONEY IMMOBILIZED BY IDS IS LIKELY TO BE WELL UNDER 1 BILLION FMK, WHICH SHOWS THAT THESE DEPOSITS ARE PROVING TO BE LESS EFFECTIVE THAN ORIGINALLY THOUGHT IN CONTRIBUTING TO MONETARY STRINGENCY. (AS RECENTLY AS MAY 9, THE LEADING FINNISH COMMERCIAL NEWSPAPER ESTIMATED THE AMOUNT OF MONEY WHICH WOULD BE TAKEN OUT OF CIRCULATION BY THE IDS AS FROM 1 TO 1.5 BILLION FMKS.) FINLAND'S FOREIGN EXCHANGE RESERVES INCREASED SLIGHTLY DURING APRIL, BY 107 MILLION TO 1473 MILLION FMK. THIS IS STILL LESS THAN COST OF ONE MONTHS IMPORTS. GAIN IN RESERVES WAS ENTIRELY IN TIED CURRENCIES (I.E. USSR AND OTHER CEMA COUNTRIES) WHICH INCREASED BY 123 MILLION FMKS TO 255 MILLION FMK. ON OTHER HAND CONVERTIBLE RESERVES HAD FALLEN 16 MILLION FMK TO 1218 MILLION FMK LIMITED OFFICIAL USE

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BY END OF APRIL. WHILE SORSA GOVERNMENT IS NOW EXPECTED TO STAY TOGETHER AT LEAST UNTIL THE END OF AY, IT IS HARDLY IN A POSITION TO TAKE VIGOROUS ACTION WHICH SEEMS NECESSARY TO SOLVE THE BALANCE OF PAYMENTS PROBLEM.
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